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Memorandum for:

At the request of NES^A, this Joint EURA/NES^A Typescript for Secretary Weinberger on West German-Iranian Relations was written by [redacted]
the German-Nordic Branch.

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19 March 1985

E U R A

Office of European Analysis

Joint EURA/NESA Typescript for Secretary Weinberger on West German-Iranian Relations

[redacted]
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12 March 1985

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West Germany is the only major West European country whose political and economic ties with Iran have remained tolerable. Bonn takes the position that it is in Western interest to pursue political contacts with Iran to help it regain international respectability, strengthen pragmatic forces in Tehran, and promote Iranian stability against outside pressures, including those from the Soviet Union. Commercially, although Iran no longer is a principal source of oil for West Germany, ranking ninth as a supplier, it has regained much of its pre-revolutionary importance as a lucrative export market. [redacted]

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West Germany was Iran's largest non-US trade partner in the 1970s, and, although supporting sanctions against Iran at the time of the hostage crisis, the West Germans retained a considerable commercial presence in Iran throughout the revolution. This strong commercial presence undoubtedly contributed to the willingness of both sides to maintain at least a modest political relationship. Bonn does not condone the excesses of the Khomeini regime, however, and does not want to be closely identified with it. Therefore, we expect no major steps to upgrade or intensify our relations any time soon. Nevertheless, the Foreign Ministry recognizes West Germany is among the last Western countries with effective ties to Iran. During Foreign Minister Genscher's July 1984 visit to Tehran -- the first high-level Western visit since the 1978 revolution -- he emphasized Bonn's desire to keep the lines of communication open, paving the way for improved bilateral relations when internal conditions stabilize. [redacted]

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The major economic issue between West Germany and Iran is the large West German trade surplus. While West German imports from Iran (about 75 percent crude oil) have fallen sharply along with Germany's overall OPEC imports, exports to Iran have soared, reaching pre-Khomeini levels for the first time since the 1978 Iranian Revolution (table). In 1983, the last full year for

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which we have data, West German exports to Iran, primarily vehicles and machinery, more than doubled, increasing from \$1.4 billion to \$3 billion. The result was a German trade surplus in 1983 of \$2.4 billion. During the first ten months of 1984, the surplus, although less than a year earlier, still reached an annual rate of \$1.2 billion. [redacted]

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Although the West German surplus is attributable in part to Iranian political decisions not to deal with other suppliers, the trade imbalance has generated frequent complaints that the West Germans are not buying enough oil or other products from Iran. West Germany imported as much as 18 percent of its crude oil from Iran in the 1970s, but this has fallen to only 3.5 percent. The Iranians have threatened countermeasures, such as buying spare parts, food, and chemical products from other countries. [redacted]

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West German officials respond that Bonn cannot direct the purchases of West German firms. They also point out that Iranian oil is expensive and that rigid destination clauses discourage trading. (Contract terms specify that Iranian oil purchased by German concerns is to be unloaded only in West Germany; most West German traders prefer to offload in Rotterdam, where lots are frequently traded.) Other obstacles to increasing imports from Iran are that Iranians are considered irregular and risky suppliers and that Iran has little to offer besides oil. Tehran complains, for example, that the Germans are not buying enough caviar. Much of Iran's caviar is preserved with boric acid, illegal in the EC. According to the US Embassy in Bonn, one West German economics ministry official remarked sarcastically that caviar would not erase the trade deficit, and neither would carpets or pistachios. [redacted]

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Nevertheless, Bonn has made some effort to increase imports from Iran. Government officials passed the Iranian request to German oil importers and offered to provide marketing advice to Iranian exporters. The two countries have exchanged a number of delegations over the last few years to discuss ways to increase German purchases of Iranian products. Some German firms have suggested barter deals, but the Iranians have expressed no interest. In any case, barter is unlikely to become a large part of German trade with Iran. The West German firm Friedrich Krupp (25 percent owned by the government of Iran) traded construction of a cement factory for a super-tanker load of oil. The oil was

* German trade links with Iran have also been damaged by a television film made for one of the German networks by a freelance journalist. The Iranians found the film offensive. The German Foreign Ministry conceded that the film was too negative and that the reporter had not done his homework. (Reportedly, it is now difficult for German press representatives to get into Iran.) Iranian trade officials have told their German contacts that the film incident radical members of Iran's parliament have used to press for curbing trade links with Germany. [redacted]

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high in sulfur content and Krupp found it difficult to sell. Other firms do not wish to place themselves in Krupp's position. Furthermore, because oil usually comes in tanker loads, only large firms can participate in barter for oil. [redacted]

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Although Bonn's commercial position has been restored in part, the Iranian revolution and the war with Iraq temporarily cost West Germany its most lucrative Middle East market. [redacted]

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[redacted] In recent years, West German firms have been involved in constructing an oil pipeline and oil storage tanks, a refinery, a power plant, and a sulfuric acid plant. [redacted]

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Payments from Iran continue to be a problem. Accordingly, only short-term West German government export credit guarantees in amounts of less than \$2.5 million per transaction are available. Because of the war, guarantees are not being provided for shipments to destinations within 50 kilometers of the Iraqi border. [redacted]

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The government of Iran retains significant ownership in three West German steel and engineering firms, purchased before 1978 -- Friedrich Krupp, 25.01 percent; Krupp Stahl, 25.01 percent; and Deutsche Babcock, over 25 percent. [redacted]

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West Germany: Trade With Iran

(Million \$ US)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984*</u>
Exports	1139	2103	2294	2740	3381	1284	1506	1600	1397	3011	2260
Imports	1240	1467	1988	1866	2101	2321	1881	674	703	617	680
Balance	-101	636	307	874	1279	-1037	-375	926	694	2394	1580

* Estimate



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